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September 9, 1999

EX PARTE PRESENTATION

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W., Room TW-A325
Washington, D.C. 20554

*RE: In the Matter of Implementation of the Local Competition Provisions in the
Telecommunications Act of 1996; CC Docket No. 96-98*

Dear Ms. Salas:

On September 7, 1999 Donald Kiernan, Wayne Masters, Randall Stevenson, Priscilla Hill-Ardoin and the undersigned representing SBC met with Linda Kinney representing the Office of Commissioner Ness to discuss issues in the above referenced docket.

The attached document summarizes the discussion points of the meeting.

Please include this letter and attachments in the record of these proceedings in accordance with Section 1.1206(a)(2) of the Commission's Rules.

Acknowledgment and date of receipt of this transmittal are requested. A duplicate transmittal letter is attached for that purpose.

Please contact the undersigned should you have any questions.

Respectfully submitted,

Enclosures

Cc: Linda Kinney

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SBC Ex Parte on UNE REMAND

Donald Kiernan

Randall Stephenson

Wayne Masters

UNE REMAND

- Dedicated/Special Access is currently highly competitive and growing rapidly
- Unrestricted use of UNE for Special Access
 - Disruptive to competitive market
 - Significant shifts in value from Local Providers to IXC's
 - Disincentive for local facilities investment
- Consistency of FCC Initiatives

HICAP Circuit Market

highly competitive and growing fast

- Retail Market Share Q1 Y98(SBC Region)
 - SBC 35%
 - AT&T 32%
 - MCI/WorldCom 21%
- Revenue Growth Q2Y99 YTD(Data)
 - SBC 29%
 - AT&T >20%
 - MCI 30%

HICAP Retail Mkt Share - California

all providers are sharing in the market growth

	Q3Y97	Q2Y98	Q1Y99
SBC	35%	34%	33%
CLECs	12%	15%	15%
IXCs	53%	51%	52%

Source: Quality Strategies; April 1999

HICAP Facilities Provider Market Share

SBC's 5 Largest Metros - Q1Y98

wholesale special access is highly competitive

	SBC	MCI	AT&T	Others
Dallas	49%	33%	17%	1%
Houston	53%	28%	15%	4%
Los Angeles	50%	30%	17%	3%
San Diego	67%	11%	15%	7%
San Francisco	50%	35%	12%	3%

Profitability of HICAP Market

- “Our communications services revenue growth is being driven by continued strong top line performance in data, Internet and international -- three of the fastest growing and **most profitable areas** within communications services.”

MCI WorldCom Second Quarter 1999 Report

July 29, 1999

Profitability of HICAP Market

- “The improvement in profitability [EBITDA Margin increase from 29% to 35%] occurred even as AT&T moved to increase the size of its sales force in order to continue its momentum in high growth areas such as data, IP and local services.”

AT&T Group Earnings Commentary

July 29, 1999

Competitiveness

- “Data Is Just as ‘Commodity-Like’ as Voice.Private Lines are still the largest data product category....Data Revenue may grow more rapidly than voice, but the data market will be as intensely contested as new capacity is introduced.”

Bear Stearns, Telecommunication Services,
August 1999

Value Shift

*from the company carrying the investment risk to
the reseller*

- Significant shift in Special Access value/revenue from SBC, the investment entity, to the entities reselling services.
- Major IXC's are the beneficiaries
- CLECs and CAPs will be significantly disadvantaged due to artificial pricing

UNE Discounts are Significantly Lower than SBC's Best Prices - DS1

	Best Price	UNE Composite
California	53%	62%
Texas	54%	60%
SBC		61%

Penalties are Not a Deterrent to Change

DS1 5 Year Term - Monthly

	Discount	Penalty
Texas	\$140	\$52
California	\$144	\$123

Anticompetitive Pricing

- "MFS challenges the lawfulness of current LEC special access discounts arguing that they are not cost-based, and urges that there be no volume, term, or capacity discounts at all for transport beyond those reflected in DS3 rates."

*In re Expanded Interconnection with Local Telephone Company Facilities
Amendment of Part 36 of the Commission's Rules and Establishment of a Joint
Board, CC Docket No. 80-286, 8 FCC Rcd 7374, Second Report and Order
(released Sept 2, 1993), the FCC Order*

Anticompetitive Pricing

- "MFS asserts that the GSF cost reallocation in itself might not constitute subsidization, but that it aggravates subsidization that exists already through excessive volume and term discounts."

In re Amendment of the Part 69 Allocation of General Support Facility Costs, CC Docket No. 92-222, 11 FCC Rcd 1841 (released Feb 16, 1996) the FCC Order

Impact on Industry

- No incentive to invest in the network or new technologies
- CAP financial model displaced
- Significant impairment of CLEC, CAP and LEC assets
- Reduced competition

Value Shift

- “It’s not fair. It’s not right. Worse, it would inhibit industry growth and competition. No company will invest billions of dollars to become a facilities-based broadband services provider if competitors who have not invested a penny of capital nor taken an ounce of risk can come along and get a free ride on the investments and risks of others”

C. Michael Armstrong, AT&T Chairman, in speech “Telecom and Cable TV: Shared Prospects for the Communications Future” delivered to the Washington Metropolitan Cable Club on November 2, 1998

Consistent FCC Rational

- “Nakahata” Proposal
- Pricing Flexibility
- Universal Service
- UNE Remand ???